



17 August 2022

Energy Security Board

ALINTA ENERGY RESPONSE TO T3 MINISTERIAL LEVER AUGUST 2022

Alinta Energy appreciates the opportunity to provide feedback on the ESB's *T3 Ministerial lever for the Retailer Reliability Obligation*.

Alinta Energy does not support the proposal to give all Ministers the power to trigger a T-3 for their jurisdiction for the following reasons:

- 1) **Ministers are not best placed to forecast reliability, increasing the risk of unnecessary T-3s.** Alinta Energy considers that AEMO is best placed to provide an accurate assessment of the supply-demand balance as an independent organisation with expertise in reliability forecasting. By contrast, Ministers may have political incentives to trigger T-3s and limited incentive to abstain, and any use of this power would necessarily be despite AEMO's expert forecasts. History supports this, with the SA Minister having exercised their ability to trigger T-3s for all but one of the Summer periods they were able to since implementation, despite forecasts for adequate reliability.
- 2) **Unnecessary interventions create material regulatory burdens and undermine market efficiency, increasing costs.** T-3s require MLO generators to prepare MLO products, and the AER to administer this scheme. Meanwhile, many large retailers would prepare their net contract position reports and audit their bespoke contracts for firmness. Further, some retailers and large customers may make inefficient contract decisions based on the symbolic risk of a T-1 and perceptions of an increased risk of penalties, rather than market conditions, undermining efficiency and increasing costs.
- 3) **A Minister-triggered T-3 is unlikely to meaningfully support reliability.** While a T-3 may result in some retailers and large customers contracting capacity excesses due to the perceived risks outlined above, Alinta Energy considers that the vast majority would continue to make decisions based on rational assessments of market conditions. Consequently, Alinta Energy suggests that a Ministerial T-3 would have little to no impact on the supply-demand balance in the given region and therefore not address reliability concerns – the ESB's stated rationale for the proposal. Alinta Energy notes that other mechanisms, such as the RERT, are designed to address rapid declines in reliability, like unforeseen retirements – hence the design of the RRO as a two-gate system. In these situations, where a Ministerial T-3 is followed an unforeseen supply-side event, triggering a T-1 shortly before the deadline, the Ministerial trigger would only serve to penalise liable entities who continued to contract rationally until the unforeseen supply-side event and could not access additional capacity in a short time. They would be assigned the RERT costs under the RRO rules, while retailers who had excess capacity (e.g. due to excessive conservatism, being a large vertically integrated player with excess capacity, or asymmetric information of a closure risk) would avoid penalties.

Thank you for your consideration of Alinta Energy's submission. If you would like to discuss this further, please contact me at oscar.carlberg@alintaenergy.com.au or on 0409 501 570.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Oscar Carlberg', written in a cursive style.

Oscar Carlberg
Wholesale Regulation Manager